



## MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

**To:** JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development  
**From:** Chris Patton, Director *CP*  
**Re:** Financial Review – Northwest Wisconsin Concentrated Employment Program, Inc.  
**Date:** March 29, 2010

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The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Northwest Wisconsin Concentrated Employment Program, Inc. by various State of Wisconsin agencies include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$1,700,109

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of Northwest Wisconsin Concentrated Employment Program, Inc. was performed from March 1st through March 3rd, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

***Conflict of Interest Policy:***

**Observation:** CEP has written Conflict of Interest (COI) and Rules of Conduct policies. All new employees receive these policies and must acknowledge in writing their receipt and understanding of them. This awareness includes a provision within the policy that "in the event a potential conflict does arise, its nature and extent must be fully disclosed immediately to the Executive Director." New board members are made aware of the COI policy during their initial orientation. However, senior management and board members are not required to periodically submit (e.g., annually) COI disclosure statements indicating whether or not they have a potential conflict.

**Recommendation:** Best practices would suggest amending the Conflict of Interest Policy to require Board Members and existing employees to annually acknowledge the code of conduct and certify compliance and disclosure of potential conflicts to the agency. Periodic communication of the policy and disclosure of potential conflicts will reduce the risk that potential conflicts are not identified and reported.

***Employee Background Checks:***

**Observation:** Criminal background checks were discontinued some time ago. The Human Resources Manager indicated that one has not been conducted for any new hire in the four years he has been with CEP. It is outside legal counsel's opinion that an organization needs to be careful when using the results of a criminal background check as the basis for not hiring an individual. Besides the interviewing process, reliance is placed on checking references when making the hiring decision.

**Recommendation:** Best practices would include performing background checks on employees before transitioning to positions that have senior management responsibilities, cash handling duties, or program requirements.

***Segregation of Duties:***

**Observation:** The Finance Director is the security administrator for the SAGE MIP financial system. CEP's board is comfortable with this situation based on mitigating controls that are in place including: 1) the Finance Director does not have access to the locked cabinet storing blank check stock, and 2) two board members perform a periodic review of randomly selected key items (cash receipts, disbursements, journal entries and credit card transactions). The review of these items is detailed on a standard form which includes their sign off.

**Recommendation:** Although the agency has taken steps to mitigate any risk, management could further reduce risk in this area if the Finance Director's permission right was removed on the financial system for entering manual check transactions. In most cases it is optimal that a minimum number of individuals have the ability to perform certain tasks, while management, supervisors or other individuals that are not involved in the process have the ability to review the transactions that were performed.

As noted in the review, the agency had a Recovery Act whistleblower poster displayed in the building. To better understand the applicability of the whistleblower provisions of the Act, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. Best practices would also include creating methods of allowing anonymous reporting of fraud or abuse as well as periodic communication of the policy.

As a state agency with the responsibility for ensuring that sub-recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Summary Memorandum and the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to Northwest Wisconsin Concentrated Employment Program, Inc.

As a result of this review, if you require sub-recipients to demonstrate a change of policy or procedure, please forward a copy of any correspondence to the attention of ORR.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Steve Terry, Northwest Wisconsin Concentrated Employment Program, Inc.